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SUBJECT: BELARUS BI-WEEKLY POL/ECON REPORT - APRIL 10, 2009

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**11.** The following are brief items of interest compiled by Embassy Minsk.

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##### Elections

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**12.** Lukashenka Approves Election Law Amendments

On January 6, President Lukashenka signed into law a bill of amendments to the Electoral Code. It was approved by the parliament on December 17 (reftel Minsk 413). Lukashenka is expected to issue an edict within a week to schedule a date for the local elections in April and, subsequently, a timeframe for

the campaign. In her remarks to the press on January 2, Central Election Commission Chairwoman Lidziya Yarmoshyna indicated that there would unlikely be large numbers of candidates contesting the 24,000 positions at stake in the local elections, "five" per district in Minsk and an average of "1.5" per district in rural areas. She said that more funding (\$13 million) had been allocated for the 2011 presidential polls, "assuming there would be a total of 10 registered candidates." Yarmoshyna yet again asserted that international observers would not be invited to monitor local elections and urged local political parties, which she said lack a will to win, be more "active" and play "a more prominent role in election campaigns."

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Civil Society  
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#### 13. GOB Continues to Prosecute Democratic Activists

In an apparent bid to further crackdown on opposition symbols, police apprehended Syarhey Kavalenka, a Conservative Christian Party member, for posting a white-red-white flag (an independence era symbol that is now illegal in Belarus) on a Christmas tree in Vitsyebsk on January 7. He was originally jailed for two months pending his trial and unexpectedly released on January 12. Kavalenka has been banned from traveling abroad and is facing hooliganism charges that carry a maximum prison sentence of six years. He expressed no regret over displaying the flag and no doubts that it would "ultimately regain its official status." In connection to this case, police raided on January 13 the residence of Syarhey Serabro, a local journalist who took and disseminated pictures of the posted flag, and confiscated his computers and a camera. In a separate incident, a Navahrudak town court fined Belarusian Christian Democracy party activist Yury Kazak \$3,050 for allegedly splashing green paint on a bust of Lenin in the town center on

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November 6. The party condemned the fine as "a humiliating judgment."

#### 14. Enforcement of Controversial Internet Regulations on Hold

A proposed bill authorizing tight regulation of the internet in Belarus may not be adopted in the near future, according to reports sourced to a media expert Yury Ziser, who owns the "tut.by" news portal. The bill was drafted by the Council of Ministers at the end of 2009 without open public debate. Members of the independent media have voiced criticism of the bill (reftel Minsk 426). Ziser suggested that the Presidential Administration may substantially rewrite the bill "to soften" some of its repressive provisions and clarify ambiguities. He explained that the GOB appeared to have rushed to draft a bill in the run-up to local elections, leaving the proposed legislation with inconsistent requirements. He expects the administration to study the matter further before putting forward an alternative draft.

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Religious Freedom  
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#### 15. Protestant New Life Church Fined; Two Catholic Priests Banned

Authorities continued to pressure the New Life Full Gospel Church (NLC) in Minsk, while moving to limit services conducted by Polish Roman Catholic (RC) clergy in Belarus. On January 4, the NLC received a summons from the Minsk city government's natural resources and environmental protection department and were fined more than \$91,000 for allegedly polluting the ground around its building with traces of oil, causing extensive damage. Church leaders said the action was aimed at evicting them from their premises. In the Hrodna region, authorities denied two Polish priests permission to continue religious work in 2010. Priest Jan Bonkowski, who has served in the village of Mizhevitsi for 20 years, and priest Edward Smaga, who worked in

Indura, have been required to halt their activities and leave Belarus. Almost half of the Catholic priests in Belarus are Polish, as it remains difficult to train and educate a sufficient number of clergy in Belarus, according to RC leaders. The GOB has a record of expelling Polish clergymen in recent years, claiming they fail to preach in Belarusian or Russian. A senior religious and minority affairs official, Leanid Hulyaka, stated on January 14 that the GOB "has a right to require Catholic priests to adhere rigorously to Belarusian laws."

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Economy  
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16. Russia and Belarus Still at Variance over Duties on Belarus-Bound Crude Oil

Meetings in early January between officials from Belarus and Russia have failed thus far in forging agreement on terms for Russian oil supplies to Belarus. Under the previous 2007-09 agreement, crude oil exported to Belarus was subject to reduced export duties set at 35.6% of the rate applied to other countries. In December, Russian deputy PM Igor Sechin announced that Russia would supply up to six million tons of oil to Belarus duty free to help cover domestic needs. Total oil exports to Belarus in 2010 are projected at 21.5 million tons, with Belarus expected to pay full duty rates for amounts over the six million ton figure. Responding to Moscow's warnings that failure to reach a new agreement could lead to imposition of full duty rates on all deliveries, the GOB issued a statement on January 1 saying that Russia was departing from the spirit of Customs Union terms. Earlier the GOB had allegedly warned it would raise transit fees tenfold for Russian oil deliveries to Poland and Germany to \$45 per ton if Russia refused to ship all oil to Belarus free of export duties. Pending formal establishment of the Customs Union, scheduled for July 2010, the GOB has proposed an extension of existing 2009 terms for oil deliveries. Lukashenka reportedly sent a letter to Medvedev on January 13 on the issue but its content has not been disclosed to public. Belarus reportedly continues receiving oil from Russia in volumes "previously agreed upon" for transit of Russian oil to consumers in the EU, but supplies for Belarus' domestic needs may be halted shortly. In a related move, the Belarusian state energy monopoly Belenerha issued a statement on January 4, saying that Russian electricity suppliers had failed

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to agree with the GOB on 2010 terms for the transit of electric power through Belarus to Kaliningrad and the Baltic countries. No decision has been reached as of January 14. The Guardian reported on January 4 that the oil dispute between Russia and Belarus could again raise concerns across Europe about dependence on Russian energy and the leverage it provides the Kremlin.

17. Gazprom Claims Gas Price for Belarus in Q1 to Near \$168 per 1,000 Cubic Meters

On December 30, Russia's gas monopoly Gazprom reported that CEO Alexei Miller and Belarus' First Deputy PM Uladzimir Syamashka had discussed gas supplies to Belarus in 2009, as well as transit through Belarus' territory and prospects for cooperation in 2010. CEO Miller announced that "under the contract the formula-calculated gas price for Belarus in Q1 2010 will be close to \$168 per 1,000 cubic meters." In 2009, it had averaged \$150.

18. Lukashenka pledges Belarus independence within the Customs Union

According to media reports, Lukashenka stated in his December 30, 4-hour press conference that the GOB would withdraw from the Customs Union with Kazakhstan and Russia if necessary to protect Belarus' independence. The Union is scheduled to come into force on July 1, 2010. He refuted as "unfounded" fears that Belarus will leave decision-making up to Russia or lose its sovereignty.

In characteristic fashion the President warned that "these monsters [Russia and Kazakhstan] may collude," and he said the GOB will "watch carefully" because those two countries "have similar economies, similar interests, gas, oil; they have it all, and we do not." He said the GOB will take "additional precautions" and stressed that "we have independent positions on all issues." According to Lukashenka, "there should be no fear or loss, only benefits" as the GOB "will not do what does not benefit us." At the same press conference Lukashenka cited the need to improve ties with the West and accelerate modernization of the economy, two major lessons Belarus learned in 2009.

#### ¶9. International Reserves Grew in 2009 Thanks to Foreign Loans and Privatization

According to media reports, the Belarus' National Bank (NB) reported on January 8 that according to IMF calculations, Belarus' international reserves increased by \$1,053.1 million or 22.9% in December 2009 to \$5,644.9 million. Overall reserves in 2009 increased by \$2,583.8 million over the 2008 end of year level. However, exports earnings were a very small percentage of the accumulated reserves. In 2009, Belarus received loans of \$2.855 billion from the IMF, \$500 million from GOR, \$200 million from the World Bank, and \$200 million from Russian banks, which also plan to organize a Belarus' sovereign bond issue on the Russian market of up to \$498 million. Belarus also received a one-time increase of \$448.7 million in IMF Special Drawing Rights (SDRs). It also received \$625 million from Russia's Gazprom for the sale of a stake in the Beltranshaz gas pipeline, as well as approximately \$400 million in other privatization revenues. In short, the increase in Belarus's foreign exchange reserves resulted from loans totaling more than \$5 billion as well as earnings from sales of state enterprises. In 2007, the GOB had set a target of increasing its international reserves to \$10 billion by 2010.

#### ¶10. Lukashenka's instructions to National Bank defy IMF recommendations

According to the media, Lukashenka instructed the National Bank (NB) on January 5 to open credit lines for state-owned Belarusbank and Belahrarprambank totaling approximately \$1.4 billion. The loans will be extended for five years at the refinancing rate of the NB, currently at 13.5%, to permit banks to finance "priority projects for the national economy." IMF Resident Representative in Belarus Natalia Kolyadina said on January 12 that the Lukashenka-approved decision to provide \$1.4 billion in loans to the two largest state-controlled banks had not been discussed with the IMF and might affect programs under the IMF Stand-By Arrangement for Belarus. She pointed out that long-term lending is not a function of the NB but said the IMF shares the GOB's concerns over the liquidity gap in state-controlled banks. The IMF has suggested alternative ways to address the situation, including the establishment of a

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Specialized Development Agency to manage loans issued to support state programs and credit sources. Kolyadina confirmed that the IMF had recommended the GOB not make budget injections into state-owned banks. Commenting on directed lending, Koliadina said Belarusian authorities and IMF had agreed that Belarus would curtail lending for state programs. Nevertheless, the GOB has directed state banks to provide \$2.4 billion in preferential housing loans in 2010, a move which Kolyadina explained could "drive out financing on market terms and make regular loans more expensive."

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Quote of the Week  
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¶11. While presenting 2009 Awards for Spiritual Revival and other awards at a ceremony in Minsk on January 8. Lukashenka reiterated his claim that the ongoing global economic crisis was the result of "a spiritual crisis."

"Human envy, stealing, deception, financial market fraud, corruption had been piling up for years and swept through the entire world. A spiritual crisis is much more dangerous than any economic shocks, because it is much more difficult and takes much more time to overcome it. Treachery, meanness, lies corrode the soul, undermine the physical and moral health of not only a certain individual but of entire nations and peoples," concluded Lukashenka.

SCANLAN